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IRS PROVIDES GUIDANCE ON MUTUAL FUND EXPENSES

WASHINGTON -- The Internal Revenue Service has provided guidance to mutual fund distributors on ways they can account for commissions paid on the sales of mutual fund B shares. Revenue Procedure 2000-38, effective October 2, describes three accounting methods that mutual fund distributors may use to account for commissions paid on the sales of mutual fund B shares.

"This is an example of how the IRS can work together with its stakeholders to develop a process that resolves long-standing issues," said Larry Langdon, Commissioner of the IRS Large and Mid-Size Business (LMSB) Division.

Langdon said the revenue procedure reflects the priority of LMSB to work with taxpayers to resolve issues more quickly and fairly. "We are considering a number of initiatives that will help us resolve disputes with taxpayers earlier in the process. One of the initiatives under consideration would develop a process where we can resolve long-standing issues for a large number of taxpayers, establish consistent positions that eliminate uncertainty of tax treatment, and reduce costs and burden for both taxpayers and the IRS."

The three methods outlined in the revenue procedure are the distribution fee period method, the five-year method, and the useful life method. Under all three methods the distributor capitalizes the commissions paid. Distributors that wish to change to one of these accounting methods must obtain consent from the Commissioner of IRS. The revenue procedure provides procedures for obtaining this consent.

"This is a cleaner way to handle transactions as both parties have a clear understanding of how fees will be handled within the mutual fund industry," said David Robison, Director of LMSB's Financial Services & Healthcare Industry.

Revenue Procedure 2000-38, which takes effect October 2, 2000, can be found on the IRS web site at *www.irs.gov*

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